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In the Supreme Court of the United States

OCTOBER TERM, 1960

No. 501

BINKS MANUFACTURING COMPANY, PETITIONER

v.

RANSBURG ELECTRO-COATING CORPORATION

ON WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE SEVENTH CIRCUIT

MEMORANDUM FOR THE UNITED STATES AS AMICUS CURIAE

INTEREST OF THE UNITED STATES

This case presents important issues of public policy with respect to the scope of the defense based on misuse of patent rights. While the United States has no concern with the private interests involved in infringement litigation, it is concerned with the vindication of the dominant public interest in the administration of the patent system. *Mercoid Corp.* v. *Mid-Continent Inv. Co.*, 320 U.S. 661, 665; *Morton Salt Co.* v. *G. S. Suppiger Co.*, 314 U.S. 488, 493; see *Pennock* v. *Dialogue*, 2 Pet. 1, 19. One of the most effective safeguards of the public interest in this field has been the

refusal of the courts to lend their aid to the enforcement of patent rights where the patents have been misused to subvert public policy. *Morton Salt*, 314 U.S. at 494; see *Carbice Corp.* v. *American Patents Corp.*, 283 U.S. 27; *Motion Picture Pats. Co.* v. *Universal Film Mfg. Co.*, 243 U.S. 502; *Pope Mfg. Co.* v. *Gormully*, 144 U.S. 224.

We believe that the courts below failed to give adequate recognition in this case to the public importance of the misuse doctrine, and to applicable decisions of this Court. The result has been an unwarranted narrowing of the scope of the doctrine, with consequent erosion of the competitive policy underlying the doctrine's existence.

Although the case presents other issues of public importance, we have confined ourselves to two questions, either of which could be dispositive of the proceedings in this Court:

(1) Whether a patentee guilty of misuse should be deemed to have "purged" the misuse if he fails to take adequate affirmative steps to restore the *status quo ante* and to relinquish the direct fruits of misuse, *i.e.*, the restrictive contracts.

(2) Whether a dominant firm may perpetuate its market power by use of grant-back licenses.

ARGUMENT

I. A PATENTEE GUILTY OF MISUSE CANNOT BE DEEMED TO HAVE "PURGED" HIMSELF UNTIL HE HAS FULLY RESTORED THE *STATUS QUO ANTE* BY RELINQUISHING THE RESTRICTIVE CONTRACTS

We assume, at the outset, that respondent's licensing practices prior to 1953 constituted misuse of the patent, in that unpatented goods and services were effectively tied-in with the licenses. Compare, *Northern Pacific R. Co.* v. *United States*, 356 U.S. 1. The fact that every one of respondent's hundred-odd pre-1953 licenses was made on the tie-in basis (see R. I: 205) is persuasive evidence that securing a license on any other terms was not an alternative available to customers in any realistic sense. Moreover, the 1953 attempt at purgation, or as respondent would have it, "effort * * * to be sure that all of its customers and prospective licensees knew and understood that they had * * * freedom of choice" (Br. in Opp. at 21), reveals a distinct awareness by the patentee that its prior licensing practices were improper or, at best, doubtful. The essential question, then, to which we turn, is whether the respondent should be deemed to have "purged" itself of its patent misuse.

This Court concisely summed up the applicable

principle in *B. B. Chemical Co.* v. *Ellis,* 314 U.S. 495, 498:

> It will be appropriate to consider petitioner's right to relief when it is able to show that it has fully abandoned its present method of restraining competition in the sale of unpatented articles and that the consequences of that practice have been fully dissipated.

In the present case, the patentee sought to purge the prior misuse by informing its licensees that they might terminate their tie-in licenses, return the formerly tied equipment, and then take out new licenses on the process alone, with the right to secure the equipment to be used with the process from whatever source they pleased (see R. II: 730–31).[1] The petitioner urges that the terms of this offer did not, for practical economic reasons, provide a feasible alternative for the licensees (primarily because there was no refund of the large initial sum previously charged for lease of the equipment), and that therefore there was no real purging of the misuse (Br. for Pet. at 36–38); petitioner further urges that post-1953 licensees were not offered a truly non-tie-in alternative to the tie-in lease (*id.* at 38–41). We submit, however, that, apart from the economic impracticability or practicability of the alternative license options offered, the action taken by this patentee was insufficient to dissipate fully the consequences of its previous misuse and thereby re-entitle it to invoke the assistance of the courts in enforcing the patent.

[1] No licensee took advantage of this offer (R. I:205).

A patentee guilty of misuse should not be deemed fully to have abandoned his restrictive practices and fully to have dissipated their consequences, within the requirement of the *Ellis* case, until there has been a full restoration of the *status quo ante*. It is not sufficient that the patentee announce that the practice has been abandoned, or that he affirm that he will desist from future misuse. The equitable principle that he who would invoke equity must do equity requires,[2] we submit, a more complete purgation, *i.e.*, complete relinquishment of the restrictive contracts. In doing so, the patentee may find himself required to adhere to a standard of conduct more stringent than would have been demanded of him if he had never been guilty of misuse, but the transgressor must expect his behavior to be more hedged about than that of one who writes on a clean slate. See *International Salt Co.* v. *United States*, 332 U.S. 392, 400; *United States* v. *Bausch & Lomb Co.*, 321 U.S. 707, 724; *United States* v. *Univis Lens Co.*, 316 U.S. 241, 254; *Ethyl Gasoline Corp.* v. *United States*, 309 U.S. 436, 461. As this Court suggested in an antitrust decision involving similar abuse of a patent (*International Salt, supra*), the patent misuser is not "entitled to stand before the court in the same position as one who has never violated the law at all."

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[2] For discussion of the assimilation of the "clean hands" maxim to the maxim "He who seeks equity must do equity," particularly in relation to patent misuse, see Chafee, *Some Problems of Equity* 55–61, 100 (1950). The doctrine of the *Morton Salt* case is, of course, applicable both in law and equity. See *MacGregor* v. *Westinghouse Elec. & Mfg. Co.*, 329 U.S. 402; *Edward Katzinger Co.* v. *Chicago Metallic Mfg.*

In the light of these principles, we suggest that the rule of the *Ellis* case may be restated for present purposes as follows: where there has been misuse, it can be abandoned, and the *status quo* restored, only by giving up the restrictive contracts. In the circumstances of the present case, the condition precedent to respondent's enforcement of its patent was, in our view, cancellation of all its existing tie-in licenses, followed by an offer to the former licensees of their choice of buying unpatented goods and services either from respondent or any other purveyor.[3] Like the patentee in the *Ellis* case, respondent has not shown the Court that it has fully abandoned its practices and that their consequences have been fully dissipated; until this indispensable condition precedent has been satisfied, respondent has no right to relief.

II. A DOMINANT FIRM MAY NOT PRESERVE ITS MARKET CONTROL BY REQUIRING GRANT-BACKS

Between 1951 and 1953, respondent required from its licensees, as a condition of issuing the license (see R. I: 649–50), a promise to grant-back any improvements on or inventions related to airless electrostatic spraying.[4] Although the practice of ex-

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Co., 329 U.S. 394; *Sola Elec. Co.* v. *Jefferson Elec. Co.*, 317 U.S. 173.

[3] If the existence of the six-month's termination clause (see R.I: 118, 125, 133, 140–41, 148) were deemed coercive in this respect, its elimination would appear appropriate as well. See also the discussion of the grant-back provision, *infra*, pp. 6–10.

[4] Typical such clauses are quoted at R. I: 196–97. See also R. I: 120, 127–28, 135, 143 (Par. 11 in forms D–23, D–25, D–26, D–29).

acting these restrictive covenants was abandoned in 1953, there were 133 licenses with grant-back agreements still outstanding in 1956 when this action was brought (see R. I: 152–177). We submit that respondent's retention of these contracts constituted patent misuse from which it had not purged itself when the suit was brought; for this reason respondent may not invoke the assistance of the federal courts to enforce the patents. Cf. *Morton Salt Co.* v. *G. S. Suppiger Co.*, 314 U.S. 488. It is unclear whether the court of appeals based its determination that the grant-back clause was lawful on the erroneous supposition that the patentee had abandoned its use and the consequences of any misuse had been dissipated, or on the equally erroneous view that grant-backs can be held illegal only when adopted pursuant to an industry-wide conspiracy among competitors (see R. IV: 849).

The legality of grant-back clauses in patent licenses was before this Court in *Transparent-Wrap Mach. Corp.* v. *Stokes & Smith Co.*, 329 U.S. 637. The issue was presented more narrowly there, however, since the only question was whether the court below (speaking through Judge Learned Hand) had improperly applied the rule of the patent tie-in cases (see *International Salt Co.* v. *United States*, 332 U.S. 392; *Morton Salt Co.* v. *G. S. Suppiger Co.*, 314 U.S. 488; cf. *Leitch Mfg. Co.* v. *Barber Co.*, 302 U.S. 458; *Carbice Corp.* v. *American Patents Corp.*, 283 U.S. 27) when it held grant-backs illegal *per se*. The Court reversed and remanded, by a closely divided vote, on the ground that inclusion of the clause in the license was

not illegal *per se*, and that an inquiry into the actual or probable effect of the practice on competition in the industry was appropriate in order to gauge its lawfulness. Compare *Times-Picayune Pub. Co.* v. *United States*, 345 U.S. 594, 614; *United States* v. *Columbia Steel Co.*, 334 U.S. 495, 521 & n. 18, 523–25; *United States* v. *Paramount Pictures, Inc.*, 334 U.S. 131, 173–74. In remanding, the Court emphasized that exacting grant-backs could be illegal were the effect to restrain trade or perfect monopoly power such as by perpetuating the effective life of a basic patent. 329 U.S. at 646–47. See also *United States* v. *Aluminum Co. of America*, 91 F. Supp. 333, 410 (S.D.N.Y.); *United States* v. *General Electric Co.*, 82 F. Supp. 753, 815–16 (D. N.J.); *United States* v. *General Electric Co.*, 80 F. Supp. 989, 1005–06 (S.D.N.Y.).[8]

The case at bar differs from the *Transparent-Wrap* case in that the restrictive practice is being employed

[8] We note that Congress has shown increasing concern with the impact of grant-backs on industry. See, *e.g.*, Staff of the Subcomm. on Patents, Trademarks, and Copyrights, Senate Comm. on the Judiciary, 86th Cong., 2d Sess., *Compulsory Patent Licensing Under Antitrust Judgments* 41–52 (Comm. Print 1960); Antitrust Subcomm. of the House Comm. on the Judiciary, 86th Cong., 1st Sess., *Report on Consent Decree Program of the Department of Justice* 107–20 (Comm. Print 1959); Staff of Subcomm. No. 5, House Comm. on the Judiciary, 84th Cong., 2d Sess., *Antitrust Problems in the Exploitation of Patents* 16 (Comm. Print 1956).

by the dominant firm in the industry.* Moreover, the record indicates that the impact of the agreements has been to discourage further invention in the industry (see R. I: 487, testimony of Harold Ransburg). A monopoly maintained in part by grant-backs is not one "thrust upon" the patentee by his lawful patent grants (see *United States* v. *General Electric Co.*, 80 F. Supp. at 1015), but instead contravenes the proscriptions of Section 2 of the Sherman Act, 15 U.S.C. 2. *United States* v. *Griffith*, 334 U.S. 100, 107–108; *United States* v. *United Shoe Machinery Corp.*, 110 F. Supp. 295, 342 (D. Mass.), affirmed *per curiam*, 347 U.S. 521. For here the lawful patent monopoly deliberately is being buttressed and its scope extended by a device which precludes competitors from staking out their own patent position and inevitably results in discouragement of experimentation by any but the

* Respondent is the only manufacturer and supplier of airless electrostatic spray systems (R. I: 47, 200, 201, 210). Although the district court made no findings on this score (cf. R. II: 1010–11), we believe that airless electrostatic spraying may be deemed the relevant market for the purposes of this Court's consideration. See *Times-Picayune Pub. Co.* v. *United States*, 345 U.S. 594, 611, n. 30. The district court suggested that, for some painting purposes, airless electrostatic spraying has peculiar uses and characteristics which render no other system reasonably interchangeable with it—price, use, and qualities considered (See Fndg. 83, R. II: 1011). Should the case be remanded, respondent would not be precluded from urging a wider relevant market. Cf. 329 U.S. at 648.

monopolist. In any event, such maintenance of market dominance constitutes misuse of the patents involved,[1] and it therefore bars enforcement of the rights conferred by the grant.

Respectfully submitted.

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[1] Conduct falling short of a prohibited restraint of trade or monopoly may constitute misuse, see 329 U.S. at 641; *Morton Salt*, 314 U.S. at 490. The test of misuse is whether the patentee is attempting to extend his monopoly beyond the scope of his patent grant. 329 U.S. at 640–41; *Mercoid Corp.* v. *Mid-Continent Inv. Co.*, 320 U.S. 661, 670.

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